1969 AGRICULTURAL FINANCE OUTLOOK

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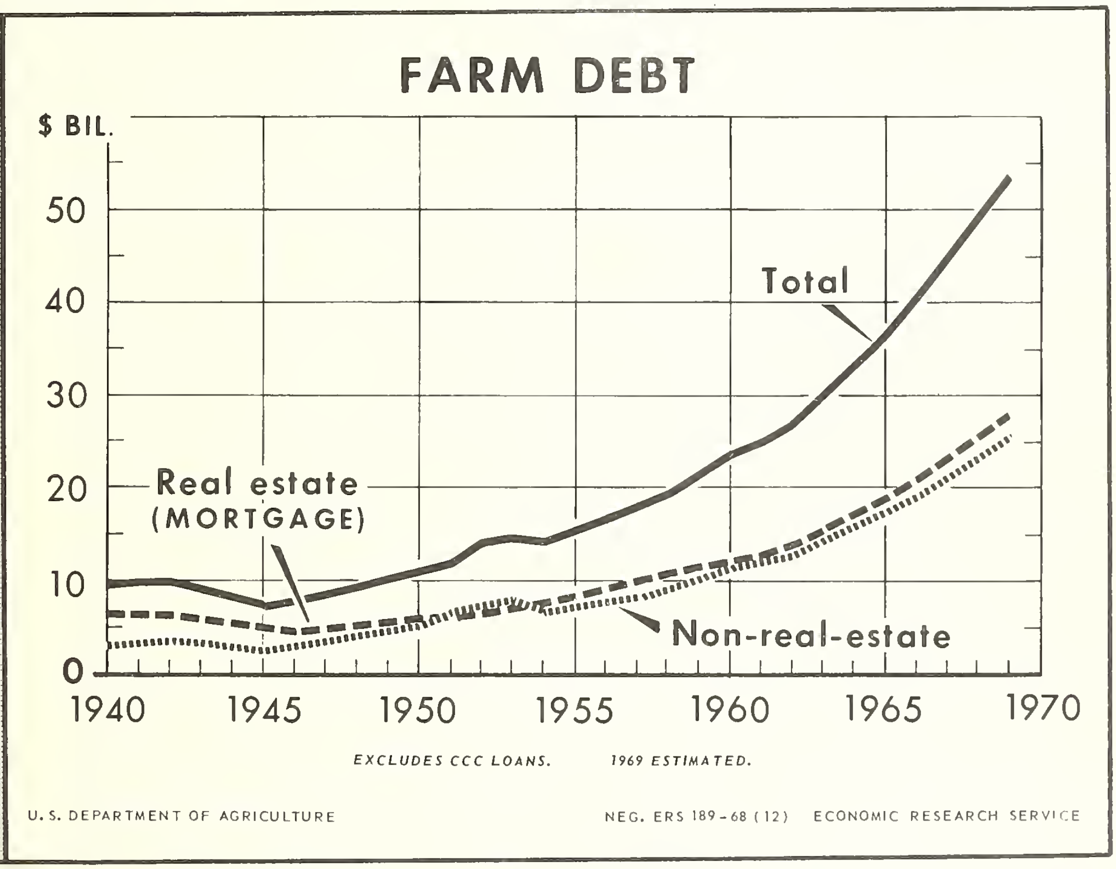

Farm debt continued to increase during 1968. The rise in farm mortgage debt was slightly more than for non-real estate debt. Adequate loans were available to operators of efficient, commercial size farms. Interest rates were higher in 1968 than in 1967 on both long-term and short-term loans. The values of farm assets and farmers' equities grew more than farm debt.

OUTLOOK

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CONTENTS

This report was prepared by the Farm Production Economics Division, Economic Research Service. It is based heavily on information solicited from the district Farm Credit banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve System, the Agricultural Committee of the American Bankers Association, the farm-mortgage departments of several life insurance companies in various parts of the United States, and the field staff of the Farm Production Economics Division. Most of the reports from these correspondents were written in November and December of 1968 and included pertinent information on the financial condition and future prospects of farmers across the Nation. The reporters are uniquely qualified to render firsthand "grass roots" opinions. The authors and readers of this Outlook publication are indebted to these cooperators for their excellent contributions.

1969 AGRICULTURAL FINANCE OUTLOOK

Approved by the Outlook & Situation Board, January 27, 1969

SUMMARY*

Use of credit on farms will likely continue upward in 1969, following a trend begun in the mid-1940's. Farm debt outstanding on January 1, 1969, was up nearly 10 percent from a year earlier. Farm production this year will probably require more purchased inputs, at higher prices. An upswing in expenditures for capital purpose items is expected, since according to correspondents many farmers last year reluctantly postponed such purchases anticipating a decline in interest rates.

Lenders are expected to have adequate funds to serve the more efficient, commercial farms. Those of marginal efficiency and low income capacities will have difficulty obtaining what borrowers consider adequate financing.

Interest rates on farm loans will likely remain high in 1969. And recent movements of prime interest rates indicate possible continued upward pressure in coming months. Borrowers can expect a progressively closer relationship between the cost of loans for farm purposes and the cost of loans in the nonfarm sector. Thus, conditions in the general money markets will have more direct effects on farmers.

Farmers were generally in better financial condition at the end of 1968 than at the beginning. The rise in gross receipts in 1968 exceeded the climb in production expenses, leaving farm operators a realized net income of $14.9 billion compared with $14.2 billion for 1967.

The value of proprietors' equities in farm assets reached a record $242.5 billion at the beginning of 1969, up $9.2 billion from a year earlier. Farm assets registered a value of $297.9 billion and farm debt totaled $55.4 billion, up $5 billion.

The value of farmland and buildings dominates the farm assets value--usually making up about 68 percent. A 4.6 percent rise in value of farmland and buildings during 1968 trailed the 6.2 percent rise in 1967.

In contrast, physical assets other than real estate showed acceleration in their rate of gain in value last year. The 6.6 percent rise in 1968 sharply exceeded 1967's gain of 2.5 percent. The value of financial assets rose slightly less in 1968 than in 1967.

There was generally an adequate supply of funds for farm loans in 1968. Many lenders reported the supply of funds for farm real estate loans exceeded demand. Relatively high interest rates and a slowing of activity in the farm real estate market caused farm loan demand to be less than would have been expected. Short- and intermediate-term loans were available to farmers who could convince lenders they had the ability to create the repayment capacity to handle loans. Many institutional lenders reported a trend away from financing of economically marginal operators. The Farmers Home Administration reported a much higher demand for its loans in most States than available funds could serve.

*The summary of this report was released on January 27, 1969.

OUTLOOK FOR 1969

Lenders and correspondents who annually review the Nation's agriculture at the request of the Department to form a basis for a farm financial outlook statement report that in their opinion net farm income in 1969 probably will about match that in 1968. Gross farm receipts will probably rise due primarily to larger marketings reflecting higher yields secured from increased production efficiencies. However, there is no indication that the upward spiral in the prices of farm inputs will decline in 1969. Higher total costs in 1969 will thus press hard against and may offset higher receipts from sales of farm products.

Farmers entered 1969 in a more favorable financial position generally than at the beginning of 1968 because of slightly higher net 1968 farm incomes and higher equities. However, in certain geographic areas, 1968 returns were unfavorable. These, together with generally increased debt repayments, reduced savings and reserves--in the opinion of most correspondents.

Higher input costs in 1969, combined with lower cash reserves, are likely to increase total credit requirements for the 1969 production year. Adequate funds will be available from institutional lenders and banks to finance the increased credit needs. However, to secure necessary production funds, farmers will have to compete with other users of credit in the money market. Correspondents therefore see no decline in the current interest rate for either short-term or long-term loans to farmers. If anything, farmers may have to pay a slightly higher interest rate in 1969 than in 1968.

There is no indication that commercial farmers are borrowing at levels which might lead to future difficulties. However, the number of marginal farmers who encountered financial difficulties in 1968 apparently increased, according to correspondents.

In general, lenders in 1969 will analyze loan applications more carefully, placing greater reliance on managerial performance and accurate recordkeeping. More consideration will be given to the merits of an application as a business proposition and less reliance placed on collateral alone.

Farm real estate values in 1969 will probably continue upward, but at a slower rate than in 1968, in the opinion of correspondents. Many reporters indicated some stabilization in land values in 1968. With rising production costs and high interest charges, the stabilization noted in 1968 will likely be carried forward in 1969.

Financial conditions in agriculture in 1969 will vary somewhat by farm production regions. These are discussed in the regional sections beginning on page 15.

FINANCIAL DEVELOPMENTS IN 1968

The value of proprietors' equities in farm assets increased by an estimated $9.2 billion during 1968 to bring the total to $242.5 billion on January 1, 1969 (table 1). This was a gain of 4.0 percent compared with 1967's gain of 3.3 percent. The value of farm assets grew by $14.2 billion in 1968 and amounted to a record $297.9 billion at the beginning of 1969. This growth of 5 percent compares with a 4.4 percent growth in the previous year. Debts against the assets also increased during 1968 and amounted to $55.4 billion on January 1, 1969 (fig. 1). This brought the debt-to-asset ratio, of all farms as a group, to 18.6 percent. The ratio was 17.8 percent at the beginning of 1968.

Table 1.--Balance Sheet of Agriculture, Jan. 1, 1967-69 1/

Item	1967	1968	1969 2/	Net increase, 1968 to 1969	
ASSETS	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Percent 3/
Physical assets:					
Real estate 4/	182.5	193.7	202.7	9.0	4.6
Non-real estate	66.2	67.9	72.4	4.5	6.6
Financial assets	21.2	22.1	22.8	.7	3.5
Total	269.9	283.7	297.9	14.2	5.0
CLAIMS					
Liabilities:					
Real estate debt	23.3	25.5	27.8	2.3	9.0
Non-real estate debt to--					
Reporting and nonreporting creditors	21.2	23.5	25.3	1.8	7.6
Commodity Credit Corporation	1.2	1.4	2.3	.9	62.0
Total	45.7	50.4	55.4	5.0	9.9
Proprietors' equities	224.2	233.3	242.5	9.2	4.0

1/ 48 States. 2/ Preliminary. 3/ Computed from unrounded data.
4/ Real estate values are as of March 1.

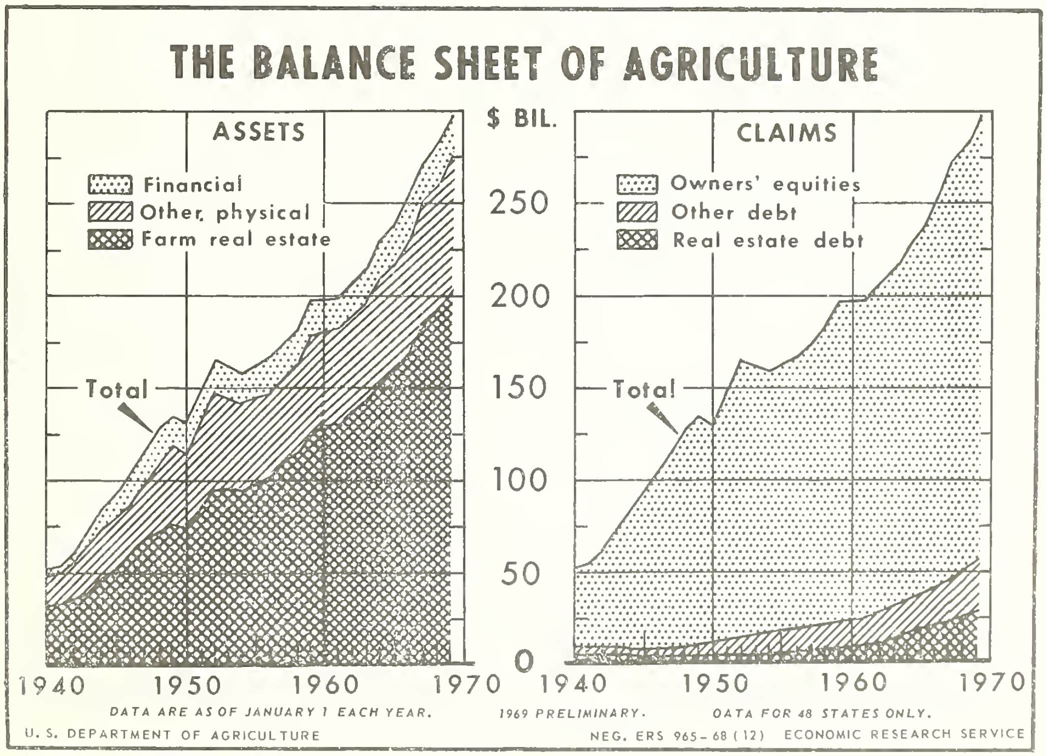


Figure 1

The value of farm real estate increased slightly less in 1968 than in the previous year. This slowdown reflects a general dampening of demand for farmland at higher prices. The value of farmland and buildings accounts for about 68 percent of the value of all farm assets.

The value of farm physical assets other than real estate increased by 6.6 percent in 1968. The $4.5 billion growth was substantially more than occurred in 1967. The combination of larger inventories and slightly higher prices accounted for the increase.

The growth in farmers' financial assets was approximately the same in 1968 as a year earlier. Such assets ordinarily make up less than 10 percent of all farm assets.

Debt secured by farm real estate increased relatively more during 1968 than did non-real estate, production type, farm debt. Loans held by the Commodity Credit Corporation (CCC) on January 1, 1969, were up an estimated 62 percent over a year earlier. Increased loans on farmer-owned cotton, wheat, corn, and soybeans shared in the higher CCC loans outstanding. Total farm debt increased at a faster rate in 1968 than did the total value of farm assets. However, the dollar increase in total assets was such that the value of farmers' equities gained more in 1968 than in 1967.

Gross farm income of $50.8 billion in 1968 was above both 1967 and the previous record in 1966. Production expenses in 1968 also ran at a record rate. Realized net farm income was $14.9 billion, 5 percent higher than in 1967, but below the 1966 record of $16.2 billion.

As in other recent years, reporters mentioned the growing occurrence of off-farm income as a portion of the total farm family income. Correspondents felt that the major portion of such income was used more for family living or special purposes, such as home improvements or providing better educational opportunities for their children, than for actual farm production expenses.

Farmers, along with other borrowers, entered 1968 with little expectation that interest rates on borrowed money would decrease during the first half of the year. As it happened, interest rates on both real estate loans and operating loans increased in most areas. At year-end, interest rates on long-term loans were up from 0.5 to 1 percentage point over the first of the year, and rates on short- and intermediate-term loans averaged about 0.35 percentage point higher than a year earlier.

Interest rates on farm loans are becoming more closely tied to those in the nonfarm sector of the economy. Increasingly, country banks are using large city banks as correspondents for farm loans that are too large for the local banks to make. Rates charged by the correspondent bank will also likely be the rates for farm loans. Too, as more country banks merge with larger banks, or as more larger banks establish branches in the smaller towns, the interest rates these banks can receive on loans for nonfarm purposes will determine, in great measure, the rate charged on farm loans. Production credit associations and the Federal land banks have always obtained the bulk of their loan funds through sale of securities in the open money market. Life insurance companies that make farm loans could probably find, and, in fact, do have more profitable alternative investments in the nonfarm sector. Interest rates on new farm loans are dictated by what these insurance companies could obtain on equal risk loans elsewhere. Therefore, farm borrowers can expect to be increasingly affected by movements in the central money markets.

The discount rate of the Federal Reserve System moved from 4 percent in late 1967 to 5-1/2 percent in April 1968, was lowered to 5-1/4 percent in August, and moved up to 5-1/2 percent again in December. In mid-December

1968, the prime rate charged by large city banks moved to an unprecedented 6-3/4 percent, and in early January 1969 to 7 percent--a new record. Such movements in capital markets are bound to affect interest rates banks charge on farm loans. There are, however, banks in some rural communities with sufficient local deposits to cover most loan demand and thus are somewhat insulated from the effects of movements in the central money markets.

Practically all reporters expressed the opinion that farmers operating economically sound, efficiently managed farms were able to get the credit they requested in 1968. There may have been some shifting during 1968 from long-term to short-term loans by some farmers who were hesitant to obligate themselves for years at a relatively high interest rate.

Reporters agreed that certain groups of operators were having increasing difficulty obtaining adequate loans. Many young or beginning farmers with low capital reserves or equities, operators of small farm units, and farmers who were marginal in one or more respects were being caught in tight financial situations. With demand for relatively low-risk loans continuing strong, many lenders are not interested in putting a lot of money in what they consider to be comparatively high-risk loans. The Farmers Home Administration (FHA), which operates to serve farmers who cannot obtain loans on reasonable terms elsewhere, has not had sufficient loan funds to meet the demand. A typical expression of our FHA correspondents was, "The demand for loans by present borrowers has been so great until we have been unable to reach thousands of farmers who need or could use our credit effectively." Although the farmers in such situations produce a small portion of total farm output, in some regions, they represent a sizable share of farm operators.

Reporters active in farm lending were asked to comment on the debt position of farmers in general and whether they felt that some farmers were borrowing at levels which would lead to difficulties. The responses recognized the fact that no one answer could serve to describe farmers "in general." Most reporters considered the commercial farmer on an adequate size unit was not in serious financial condition and not overextending his debt repayment capacity. Of course, there are some localized exceptions. The feeling was almost universal, however, that many farmers operating marginal units, some just beginning farming, and those who were attempting to expand too rapidly were already in financial trouble or were rapidly approaching difficult situations.

The ability to manage finances has become crucial in farming. As one reporter stated, ". . . it is not necessarily the levels of debt that a farmer incurs that causes his difficulties but it is more his management ability and the degree he calculates his position when incurring more obligations. The farmer that clearly assesses his position and concludes that he can make a satisfactory profit by borrowing is not the one that gets in trouble. On the other hand, the farmer that goes further into debt simply because he wants to acquire a piece of land, or some other possession that does not add to the profit of his enterprise, will eventually be in trouble at any debt level."

Most reporters considered delinquencies and foreclosures to be extremely few in comparison to the number of loans and amount of debt outstanding. This is supported by data collected by the Economic Research Service showing that the value of farm mortgage loans foreclosed remains less than one-tenth of 1 percent of the amount of farm real estate loans outstanding. Larger carryovers of operating loans were experienced near the end of 1968 in some fairly restricted localities.

There was considerable comment that many farmers were reducing their financial savings and reserves. The reference was directed to farmers attempting to expand too quickly and to some who were postponing borrowing for operating expenses or equipment purchases and using their own cash reserves instead.

FARM INCOME AND EXPENDITURES

Outlook for 1969 Income

Realized gross farm income in the early months of 1969 will likely show little change from year-earlier levels, but may decline from the level experienced in late 1968. Large supplies of livestock and poultry and large carryover stocks from bumper grain and oilseed crops, combined with a slower growth in consumers' spendable income, will probably put downward pressure on farm prices in the early months of 1969. However, some increase in cash receipts is expected, since much of the increase in output is from supported crops. Government payments likely will be larger in 1969. The persistent upward trend in production expenses will continue.

1968 Income Situation

Realized net farm income in 1968 totaled $14.9 billion. Gross farm income rose to a record level near $51 billion. Realized net farm income per farm was around $4,865, up more than $300 per farm from 1967. This was exceeded only by the $5,000 average of 1966. Production expenses rose sharply to around $36 billion, but not enough to offset the gain in gross income.

Cash receipts from farm marketings in 1968 were $44.1 billion, up 3 percent from 1967. Cash receipts from livestock and livestock products were $25.7 billion, up 5 percent. Prices of cattle and calves were up 6 percent despite an increase in marketings. Increased cattle and calf receipts accounted for over $800 million of the increased marketings. Receipts from hogs increased slightly as lower prices were more than offset by an increase in slaughter.

Producer receipts from marketings of milk were up over $100 million as prices paid by plants and dealers through September were up 4 percent over 1967 levels. The volume of milk marketed was down slightly. Broiler prices were up about 6 percent, while marketings held steady with a year earlier. Egg prices were up about 2 percent above a year earlier. Turkey marketings and prices were lower, leading to a substantial drop in receipts.

Crop receipts of $18.4 billion for 1968 were about the same as for 1967. Lower prices for food and feed grains more than offset increased marketings of these grains. Tobacco receipts were off from a year earlier. Soybean prices were below 1967 levels resulting in a decline in receipts. Receipts from marketings of vegetables, truck crops, and fruit and nuts were higher.

Farm production expenses continued to rise, increasing by more than a billion dollars in 1968 to about $36 billion. Prices paid by farmers in 1968 for production items, interest, taxes, and farm labor were about 3 percent higher than paid in 1967. Overhead costs were up substantially in 1968.

The 1968 gain in farm income plus increased earnings from nonfarm sources produced a record high in disposable personal income of the farm population. The 1968 average level of disposable per capita income of the farm population was about double the $1,100 estimated for 1960, but still only about 73 percent of the comparable average of nonfarm people.

FARM REAL ESTATE

Outlook for 1969

Farmland values are expected to continue advancing in 1969, but at slower rates than in recent years, according to correspondents. Real estate reporters in an October 1968 survey indicated that relatively stable prices may be in store for several regions in 1969. Supply and demand indicators--number of farm sales, number of farms on the market, and number of people looking for land--also point to slower market activity in the coming months. Demand generated by farm expansion may be dampened by rising production costs and high interest charges. Heavy reliance on seller financing will continue.

Farm Real Estate Market in 1968

The average value per acre of farmland rose 6 percent in the year ended in November 1968 (fig. 2). Nearly half the increase occurred in the first 4 months of this period. Average value per acre on November 1 was $184 per acre, with the U.S. total value estimated at $200.6 billion.

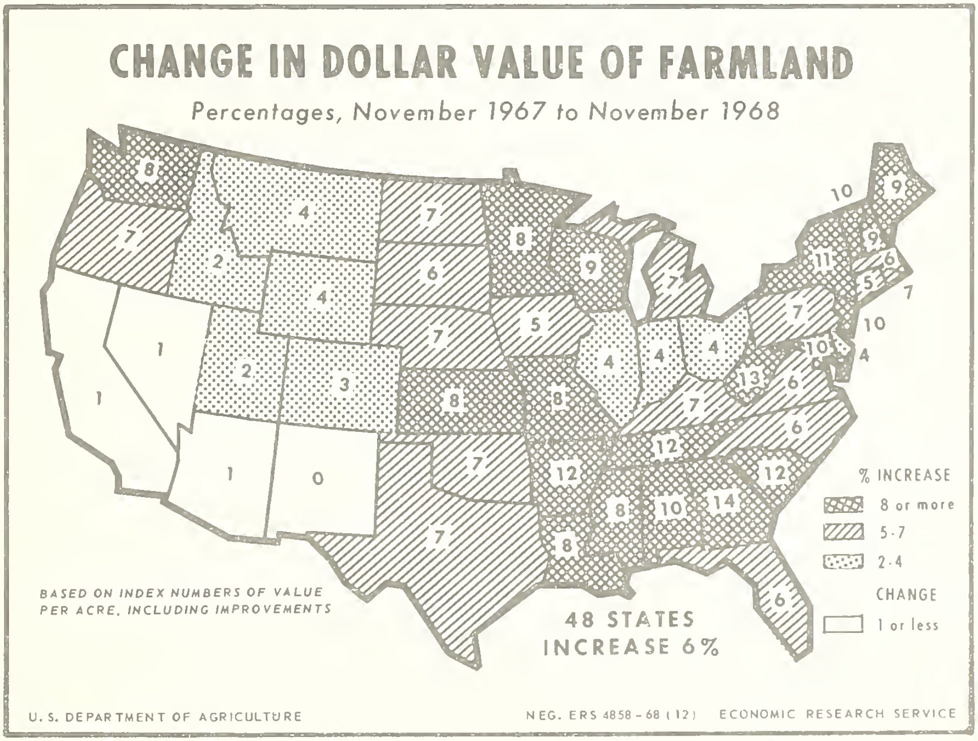


Figure 2

Regional increases during the year ranged from 2 percent in the Pacific States to 10 percent in the Southeast and Delta regions. Rapid changes in farming technology and practices continue to promote lively market activity in the Southern regions. The upward trend of Corn Belt farmland values appears to be leveling off somewhat, due in part to low corn prices during the year. Higher milk prices contributed to active demand for farmland in the Lake States and parts of the Northeast.

Voluntary transfers of farm real estate in the year ended March 1, 1968, averaged 30.4 per 1,000 farms, about 2 percent below the rate of a year earlier. The decline, plus the continuing decrease in farm numbers, resulted in a 4-percent drop in voluntary sales to 85,000. These transfers averaged 230 acres with a value of about $52,000 each.

Transfers by foreclosure averaged 1.1 per 1,000 farms. This was a slight increase from the year-earlier rate of 0.8, the lowest on record. Despite the rate increase, there were less than 3,000 foreclosures during the year.

Parcel units continue to represent an increasing share of farmland transfers. In the year ended March 1, 1968, about 38 percent of the sales were part of another farm before sale. This compares with the late 1950's when roughly a fourth of sales were parcel units. The upward trend is brought on largely by the forces of farm enlargement. Presently, more than half of all farmland transfers are added to other operating units after sale.

In the recent periods of tight money and expensive credit, sellers have provided increasing amounts of farm real estate financing. Recent farm real estate market surveys found sellers providing about half of the dollar value of credit associated with farmland sales. Seller credit was most often used in the Mountain and Pacific regions. The smallest shares of seller financing occurred in the Southern regions. The usual arrangement was an installment land contract. Interest rates charged by sellers tended to be about a half percentage point below those charged by commercial lenders. Term length of seller financing ranged between 10 and 15 years, less than the 17-year average for all lenders.

FARM DEBT

Farm debt totaled $53 billion (excluding CCC loans) on January 1, 1969. This was 8.4 percent above the 1968 level for the same date and the smallest percentage increase since 1961 (table 2). The dollar increase of $4.1 billion was $0.4 billion below the 1967 increase and lowest since 1965. The smaller 1968 increase reflected a slowdown in the rise in non-real estate loans--$1.8 billion compared with an increase of $2.3 billion in 1967. Real estate debt outstanding on January 1, 1969, was $2.3 billion higher than a year earlier compared with an increase of $2.2 billion the previous year.

Correspondents reported that, in general, repayments on farm mortgage loans were normal, with no significant change in the number of delinquencies. However, correspondents stressed that small-scale farmers were finding it more difficult to make loan payments and many marginal farmers will be faced with critical debt situations. The Farmers Home Administration (FHA) reports that referrals of farm borrowers to FHA increased during 1968. FHA field representatives expect a further increase in loan applications in 1969. One director states, "Numbers [those

Table 2.--Farm debt outstanding Jan. 1, and annual increases, 1961-69 1/

Year	Debt outstanding Jan. 1			Increase in debt during year					
				Dollar increase			Percentage increase 2/		
	Total	Real estate	Non-real estate	Total	Real estate	Non-real estate	Total	Real estate	Non-real estate
	Billion dollars			Billion dollars			Percent		
1961	24.8	12.8	12.0	2.0	1.1	0.9	8.2	8.4	7.9
1962	26.8	13.9	12.9	2.9	1.3	1.6	10.7	9.1	12.3
1963	29.7	15.2	14.5	3.3	1.6	1.7	11.2	10.8	11.7
1964	33.0	16.8	16.2	3.0	2.1	.9	9.2	12.4	5.8
1965	36.0	18.9	17.1	4.1	2.3	1.8	11.5	12.1	10.8
1966	40.1	21.1	19.0	4.4	2.2	2.2	10.9	10.0	12.0
1967	44.5	23.3	21.2	4.5	2.2	2.3	10.0	9.4	10.6
1968	49.0	25.5	23.5	4.1	2.3	1.8	8.4	9.2	7.6
1969 3/	53.1	27.8	25.3	---	---	---	---	---	---

1/ Excludes Commodity Credit Corporation loans.
2/ Computed from unrounded data.
3/ Preliminary estimate.

eligible for FHA credit7 seem to be increasing some, but primary change consists of an influx of applicants that formerly obtained credit from PCA's and banks."

Correspondents expect farm debt to increase in 1969 as farmers make purchases they previously delayed in anticipation of lower interest charges. The consensus is that farmers are now accepting the higher interest rates as a part of the increasing cost pattern and will, to the extent credit is available, make needed purchases of farm machinery. Although reporters expressed the general view that long-term debt will also increase, the high level of land values and the low 1968 grain prices have discouraged many farmers in their expansion programs. In general, correspondents expect that adequate funds to finance sound farm enterprises will be available in 1969.

Farm Mortgage Credit

Outlook for 1969. The consensus of correspondents is that adequate funds will be available to meet the increasing volume of requests for long-term credit secured by farm real estate. The higher interest rates are likely to be accepted and farmers will proceed with borrowings they had postponed. Credit needs are rising, since efficiently operated farms require considerable capital for modern equipment and for increased acreage. The judgment of reporters is that interest rates on long-term loans to farmers during 1969 will continue at the late 1968 level. However, the early 1969 advance in prime interest rates would indicate a continuation of upward pressures.

Demand for long-term credit during 1968 was less than the supply of funds. Numerous reports from lenders told of more funds being available than being utilized. A much lower percentage of requests were for refinancing of existing loans. The interest differential between existing loans and the current rate was reported as the primary factor causing farmers to be reluctant to refinance existing contracts. In addition, lenders--primarily insurance companies--were less aggressive and much more selective in making loans during the year.

Developments in 1968. The softening in total requests for long-term loans was more pronounced in the last half of 1968. Farm mortgage loans recorded by all lenders in the first half of 1968 were 7.7 percent above 1967 (fig. 3). However, mortgage recordings for the first half of the year for the Southeast, Appalachian, and Northeast regions were as much as 13 percent below the value for 1967. For all other regions the mortgage recordings were higher.

The easing in requests for long-term mortgage money noted by reporters is reflected in the new money loaned by the two major institutional lender groups--the Federal land banks and life insurance companies. During the first 9 months of 1968, new money loaned by these lenders totaled approximately the same as in 1967, or $1,241 million versus $1,233 million. These amounts, however, were considerably below the peak of $1,580 million loaned during the same period of 1966--the period prior to the tight money situation starting in the fall of 1966. Although the volume of these two lenders for the first three quarters of 1968 was the same as in 1967, the downward trend exceeded the usual pattern. The volume during the first quarter was 21 percent above the first quarter 1967, but third quarter 1968 volume was 21 percent below 1967. This was not only due to borrower resistance to increased interest rates, but also to low grain prices in cash grain areas.

As in 1967, reporters indicated for some areas increased farm real estate sales that were seller financed using land contracts and mortgages.

Average interest rates on farm mortgage loan commitments of life insurance companies reached a new high of 7.54 percent for the third quarter. This compares with 6.73 percent for the third quarter of 1967. Effective interest rates charged by Federal land banks on new loans also increased in 1968 after legislation removed the 6 percent interest rate ceiling of Federal land bank loans. By the end of December, seven banks had raised rates to 7 percent; two continued at 6-3/4 percent, two at 6-1/2 percent, and one, Baltimore, at 6 percent. As of December 1, 1967, all Federal land banks were charging 6 percent.

The number of farm mortgage loans with delinquent payments continued at a relatively low level in 1968. However, the cost-price squeeze is making it more difficult for small farmers to meet their annual repayment responsibilities.

Non-real Estate Farm Loans

Outlook for 1969. Interest rates on non-real estate loans likely will remain relatively high in 1969. Credit demands of farmers are expected to remain strong and possibly increase over 1968. Non-real estate debt outstanding at the end of 1969 will likely total a record high. Most reporters indicated that the credit supply to operators of efficient, well-managed, commercial-type farms would be adequate. There was less

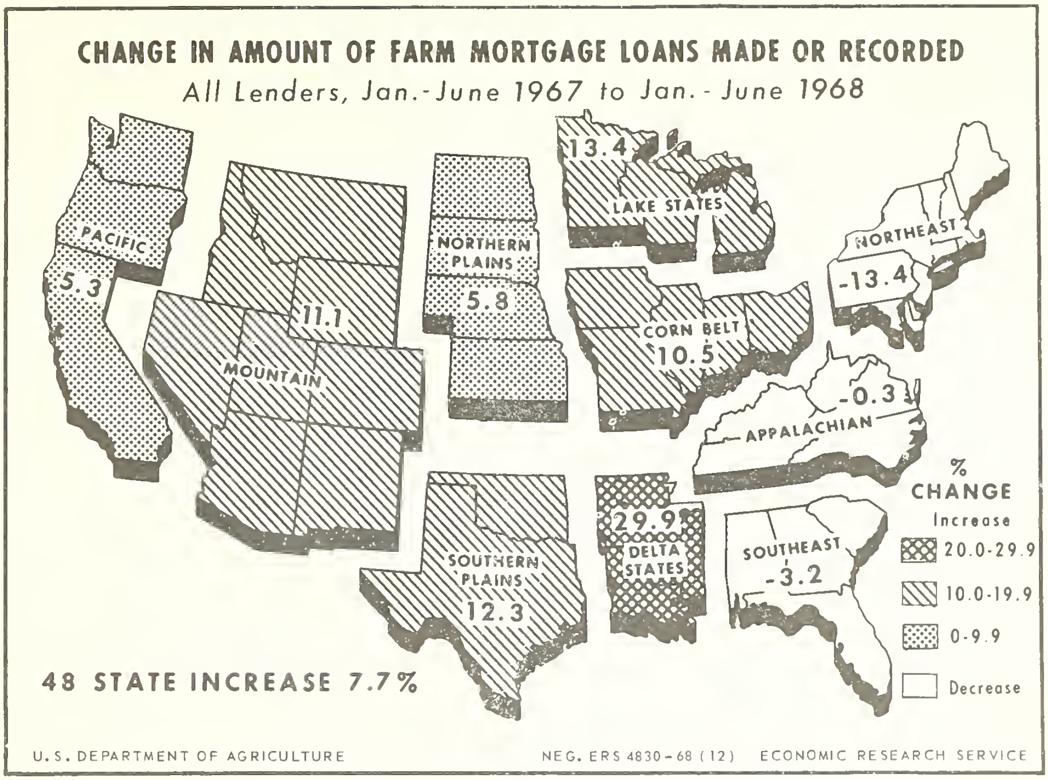


Figure 3

optimism, however, for many others such as young beginning farmers, marginal farmers, and those who needed management help.

Developments in 1968. The $1.8 billion increase in operating and other types of non-real estate loans on January 1, 1969, over a year earlier evidences the continuing demand by farmers for such credit (table 2). Even so, the increase is the smallest since 1965. Expenditures for farm vehicles and machinery in 1968 were estimated to be about the same to slightly less than in 1967 and probably were mainly responsible for the slower growth in non-real estate credit. The volume of loans held by reporting lenders increased 8.2 percent in the year ended June 30, 1968 (fig. 4). This compares to an 11.0 percent increase for a similar period a year earlier.

Farm production expenses continued to rise in 1968 and created much of the demand for the record amount of non-real estate credit used. The number of cattle placed on feed in 1968 was up substantially over 1967. Feeder cattle were purchased at higher prices. Fertilizer and chemical use was greater.

Although the number of farms keeps decreasing, the remaining farms use a greater volume of purchased inputs than did a larger number of farms in previous years. With higher costs for most items, the total bill for purchased inputs adds up to ever-increasing amounts, and many of the purchases are made with borrowed money. Also, some farmers reportedly are still using shorter term non-real estate loans for purposes for which they would ordinarily use long-term farm mortgage loans. Such shifting results from farmers' reluctance to contract for a long-term loan at relatively high interest rates.

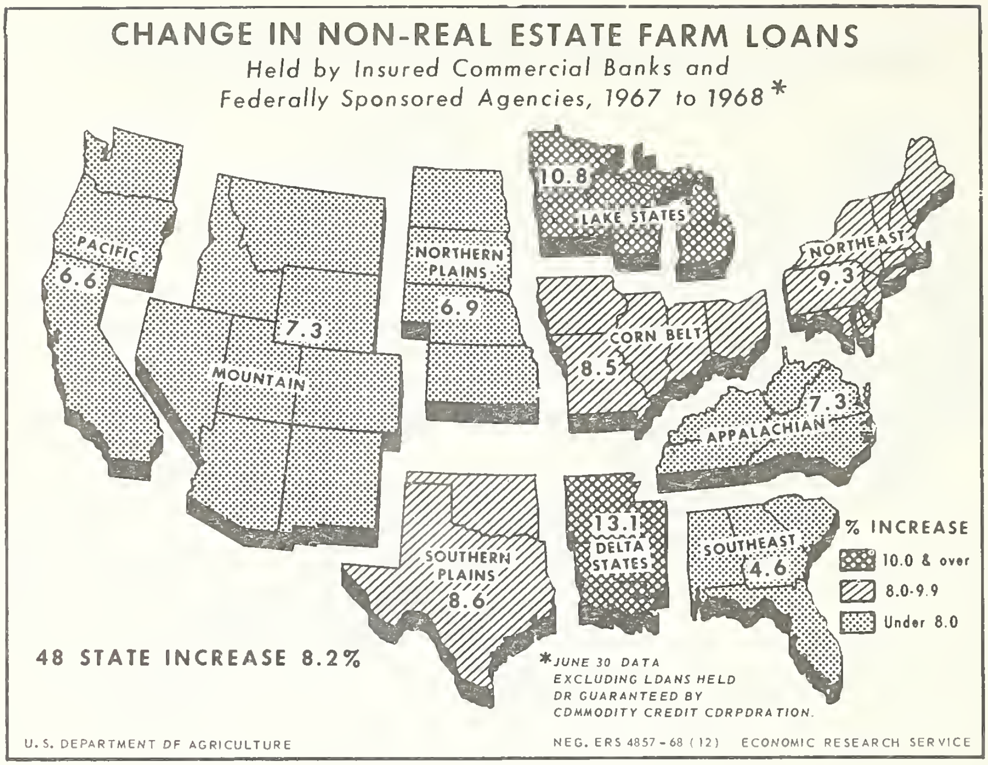


Figure 4

Practically all lenders charged higher rates of interest on non-real estate farm loans in 1968 than in 1967. As an indication, bankers reported in a midyear survey by the American Bankers Association that interest rates increased about 0.35 percentage point over a year earlier. As of January 1, 1969, about 74 percent of the production credit associations were charging rates of 7 percent or over on their loans. This compares with about 65 percent of them charging rates that high in January 1968.

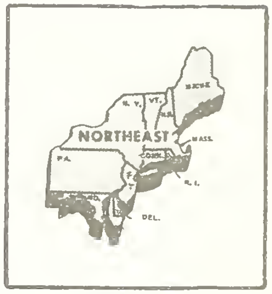
Operating and intermediate-term credit was available in adequate amounts to most farmers in 1968. The average farm operating loan amount tends to increase each year--especially for commercial farmers. In most localities, commercial bank-lending limits on a single loan have also been increasing and have generally kept pace with demand for larger farm loans. Production credit associations were well funded during 1968. The Farmers Home Administration reported it had a much greater demand for loans in 1968 than it could satisfy.

REGIONAL SITUATION AND OUTLOOK

NORTHEAST

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total----------------------------	3,335	3,423	2.6
Crops--------------------------	1,080	1,077	-.3
Livestock and livestock products-	2,255	2,347	4.1
Market value of farm real estate, March 1------------------------	9,163	9,602	4.8
Farm real estate debt, Jan. 1------	1,359	1,586	16.7
Farm mortgage recordings, Jan.-June	157	136	-13.4
Non-real estate farm loans held by reporting lenders, July 1---------	741	809	9.3



Outlook for 1969

Reporters in the Northeast region without exception believe farm costs will continue to rise in 1969. Receipts will probably also be higher, but the rate of increase as in recent years will probably be less than the rate of increase in farm costs. Hence, regional net farm income generally will likely not increase over 1968, based on reporters' opinions. Dairy farmers may be an exception. Due to the improved milk prices, net income of dairy farmers may show some increase.

The general debt level of farmers will probably increase as credit is utilized to secure additional laborsaving machinery. Ample funds are anticipated to meet the increased needs. However, correspondents stressed that lenders are screening loan applications more closely, looking for proven managerial ability and performance records. Farmers involved in uneconomical units will continue to sell out.

The 1969 outlook for land values, as indicated by reporters, is for a continued increase but at a slower rate than in recent years.

1968 Financial Conditions

Cash receipts during 1968 exceeded those in 1967 by nearly 3 percent. The increase was due to a 4-percent increase in receipts from livestock and livestock product sales. Crop receipts were down slightly.

Milk prices increased during the year, helping improve cash receipts for dairymen. Most dairymen closed the year in a much stronger financial position than in recent years.

The broiler sector of the Northeast had a reasonably good year, although processors experienced increased labor problems. Egg producers closed the year in greatly improved financial condition due to higher egg prices and a drop in feed costs during the last half of the year. A Maine

reporter speaking in September about egg production stated, "It appears likely we have 12 months and possibly 16 months of fairly profitable conditions ahead."

The favorable livestock and livestock product situation in the Northeast last year was in contrast to reverses for farmers relying on cash crop sales. Maine potato growers are in a much poorer financial condition as compared to a year ago. In marketing the 1967 crop, farmers received prices generally down about 15 percent from the preceding year. Lower cash receipts necessitated increased 1968 production loans, which on August 31 were almost a third higher than a year earlier. Weather for the 1968 harvest was unusually good, and producers are optimistic that the income from the 1968 crop will be better than for the 1967 crop.

Cash crop receipts in certain areas of Maine were depressed due to the poor sugarbeet harvest. Yields were not up to expectations. The growing season was unusually dry. Blueberry receipts were also low due to the dry weather.

For the Northeast region as a whole, 1968 vegetable and fruit prices were comparable to the previous season, but grain prices except for corn were generally lower.

Off-farm earnings are important in the Northeast to supplement income on small farm units. Such units are relatively more numerous in this area than in many other sections of the country. Convenience to industrial areas and high wage scales encourage off-farm employment. In the central area of Maine the closing of an Air Force base, two paper mills, and the phasing out of an electronics plant lowered off-farm income.

Reporters indicated that New England farmers used more production credit in 1968 than in the previous year despite higher interest rates. Long-term real estate debt also increased, but at a lower rate than in previous years. Sale of farmland to farmers showed a definite decline due to lack of available long-term funds in the beginning of the year and higher costs for money. However, this has not caused a break in the upward farmland price trend in most parts of the Northeast.

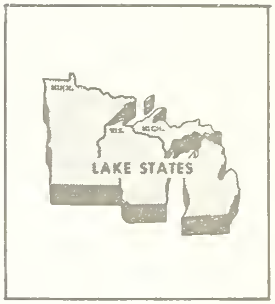
The consensus of reporters is that they see no signs that farmers are borrowing at levels which may lead to difficulties.

Except for financial problems in specialized production areas, the 1968 financial situation of agriculture in the Northeast is well summarized by one reporter in referring to the credit situation--"No appreciable change is expected in the excellent repayment record of the past year."

LAKE STATES

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total	4,106	4,152	1.1
Crops	1,202	1,138	-5.3
Livestock and livestock products	2,905	3,014	3.8
Market value of farm real estate, March 1	12,953	13,726	6.0
Farm real estate debt, Jan. 1	2,375	2,558	7.7
Farm mortgage recordings, Jan.-June	163	186	13.4
Non-real estate farm loans held by reporting lenders, July 1	1,285	1,424	10.8



Outlook for 1969

Reporters throughout the Lake States region expressed optimism for a slight improvement in the financial condition of commercial farmers in 1969. However, marginal farmers are expected to have trouble improving their financial condition through farming in 1969. These farmers will need to concentrate on nonfarm sources of income to bolster their incomes.

According to reporters, livestock producers' net income in 1969 is expected to be about the same or slightly less than in 1968. Increased consumer demand for red meat is expected to hold slaughter prices at about 1968 levels. Reporters expect downward pressure on hog prices in the second half of the year. The dairy outlook for 1969 is one of continued decreases in cow numbers offset by larger production per cow. Milk prices, which have increased for the last 3 years, are expected to again improve slightly in 1969.

Reporters expect an increase in the demand for both real estate and production credit in 1969. Investments delayed in 1967 and 1968 due to rapidly rising interest rates and tight money will be made, even though interest rates are not expected to drop from late 1968 levels. Reports noted a mood of caution among farmers incurring long-term debt, due primarily to the high rate of interest. Farmers appear reconciled to the higher rates of interest in considering the purchase of assets that increase efficiency and reduce labor costs. Adequate funds will likely be available to satisfy the demand for credit. However, a large portion of the lending will be done on the merit of the loan as a business proposition with less reliance on collateral alone. Reporters in Michigan and Minnesota noted a significant increase in purchases of farmland through land contracts in 1968 and expect the trend to continue into 1969.

1968 Financial Conditions

Financial condition of farmers in the Lake States improved slightly in 1968 from the previous year. Cash receipts from farm marketings were 1.1 percent higher than in 1967. The decline in crop receipts--5.3 percent--was due in part to lower prices. The drop in crop receipts was

offset to some extent by Government feed grain program payments, which were over 50 percent higher in 1968 than in 1967. Receipts from livestock and livestock products, which usually account for approximately 75 percent of total receipts in the Lake States, increased 3.8 percent over 1967 levels. This increase was due to slightly higher prices for cattle and calves, hogs, and milk.

Michigan fruit farmers in the southern portion of the fruit belt along Lake Michigan had a disastrous year in 1968. A very severe spring frost caused great declines in the production of all fruit crops, with the exception of tart and sweet cherries which declined only 15 percent. Fruit farmers in the northern portion of the State experienced near-normal yields and received fairly high prices due to the short crop in other portions of the State.

Farm real estate debt outstanding in the Lake States on January 1, 1968, was 7.7 percent higher than on the same date a year earlier. This was the smallest increase in 4 years. Interest rates charged in 1968 were up as much as 1 percentage point in some areas, and the rate was at the legal limit in several States. Demand for short- and intermediate-term credit continued strong in 1968. Non-real estate loans increased by 10.8 percent in the year ended July 1, 1968. While some of this credit appeared in areas adversely affected by weather, much was being used to finance productive inputs, especially fertilizer. Reporters noted a slight curtailment of loans, encouraged in part by a brisk demand for funds from nonagricultural sources. Repayment of short- and intermediate-term debt appears excellent, except for isolated areas where weather caused trouble.

Expenditures for farm machinery and equipment in the Lake States in 1968 appeared slightly higher than in 1967. Most of the increase occurred in areas where operators of large farms have purchased machinery and equipment to increase efficiency and reduce labor costs. One notable exception to the increase is southern Minnesota, where the 1968 harvest was hampered by wet weather. Tractor sales of one major company in the area in 1968 were reportedly down 30 percent from 1967.

CORN BELT

Regional Highlights

	1967 (Million dollars)	1968 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, total	9,938	10,100	1.6
Crops	3,823	3,707	-3.0
Livestock and livestock products	6,115	6,393	4.5
Market value of farm real estate, March 1	43,876	46,568	6.1
Farm real estate debt, Jan. 1	4,702	5,129	9.1
Farm mortgage recordings, Jan.-June	610	674	10.5
Non-real estate farm loans held by reporting lenders, July 1	3,078	3,339	8.5

Outlook for 1969

Correspondents' opinions indicate that 1969 net farm income will be close to the 1968 level. Gross income will probably be higher based on projections of normal yields for 1969. Livestock returns are expected to be about the same as 1968 or higher. The value of Corn Belt farm real estate will probably increase less than the 6.1 percent gain of 1968.

Without exception, reporters projected a continuation of the present upward trend in farm costs--increases in prices as well as in quantities of inputs.

Correspondents foresee adequate funds to finance agriculture in 1969 although some tightness will exist. Requests for long-term funds by farmers will probably exceed the 1968 levels. The increase will come mainly from farm operators who have delayed long-term borrowings hoping for a decline in interest rates. A decline does not now appear likely in 1969.

Short-term financing requirements will probably approximate the 1968 level. Reporters indicate a probable increase in financing requirements for farm machinery sales. This increase will be offset in part by transferring some current short-term obligations to long-term debt.

Reporters generally think commercial farmers with adequate managerial ability will be able to continue to successfully absorb the growing farm debt. However, the lower 1968 grain prices coupled with below-average yields in certain areas have reduced farmers' financial reserves, so that many entered 1969 in weak financial position.

1968 Financial Conditions

Cash receipts from farm marketings for 1968 for the Corn Belt were nearly 2 percent higher than in 1967. Receipts from livestock and livestock products were up nearly 5 percent. However, receipts from crop sales decreased 3 percent. This decrease was due largely to the drop in grain prices during and immediately following harvest, plus the reduction in corn acreage. In Illinois the corn yields were lower than anticipated due to excessive rains in the spring, hampering planting, and a shortage of rain during critical growth periods. Illinois corn yields averaged 89 bushels per acre compared with 100 bushels in 1967. Corn yields elsewhere in the region were significantly higher than in 1967. The October 1968 price received by farmers for corn averaged 90 cents per bushel for Illinois, 97 cents for Iowa, and 87 cents for Indiana, compared with \$1.01, \$1.02, and \$1.01, respectively, in 1967. The value of 1968 corn production for the Corn Belt was 7.2 percent below 1967.

Soybean production in the Corn Belt for 1968 was 23 percent higher than for 1967. Production of 647 million bushels represented 60 percent of U.S. output.

Livestock and livestock product receipts were generally better in 1968 than in 1967. Receipts from cattle and hog sales were higher. Slaughter steer prices averaged higher than in the 2 preceding years. Hog prices in 1968 averaged slightly lower than in 1967 and significantly lower than 1966. The 1969 outlook for livestock indicates larger production of fed cattle and hogs. With adequate feed supplies and lower prices for feed, increased production could result in lower prices.

Reporters stressed the continued increasing costs for all inputs except some fertilizers. Cash rent also remains high, even though some farmers are dropping out of production. Demand for additional crop acreage by the more successful farmers continues in excess of supply. This demand seemed to be more for rental acres than for purchase, as the rate of increase in land values during 1968 seems to have leveled off. In Indiana, three years of poor crops have had a depressing effect on land values.

APPALACHIAN

Regional Highlights

	1967 (Million dollars)	1968 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, total	3,308	3,184	-3.7
Crops	1,760	1,571	-10.7
Livestock and livestock products	1,548	1,613	4.2
Market value of farm real estate, March 1	13,435	14,177	5.5
Farm real estate debt, Jan. 1	1,623	1,774	9.3
Farm mortgage recordings, Jan.-June	299	298	-.3
Non-real estate farm loans held by reporting lenders, July 1	979	1,051	7.3

Outlook for 1969

The financial condition of most farmers in the Appalachian States was slightly weaker entering 1969 than a year earlier. Cash receipts from farm marketings in 1968 were nearly 4 percent less than in 1967, while production expenses and outlays for capital improvements continued upward.

Farmer demand for credit will likely increase about as it did in 1968. Interest rates increased from 0.25 to 0.50 percentage point in 1968 and will likely remain high in 1969. Reporters indicated loan funds for production-type credit will be available for farmers who can demonstrate that they know how to use loans profitably. Farm mortgage loan funds may not keep pace with demand in certain areas, however, since farmers will be competing more with potential nonfarm borrowers within the region as well as elsewhere.

1968 Financial Conditions

Production of tobacco in North Carolina was down one-fifth from 1967, and in Virginia was down about one-eighth. The price of flue-cured tobacco improved somewhat over 1967, but not by enough to overcome the drop in output. Tobacco production in Tennessee and Kentucky increased slightly.

Soybean and corn production in most of the Appalachian region suffered from late summer drought. Yields were down and production was reduced about one-fifth from 1967 levels.

The region's apple crop was only slightly larger than in 1967. However, prices received for apples in 1968 were considerably improved over a year earlier.

The cotton crop was more than double the relatively small output of 1967. However, due to unfavorable weather, cotton production did not reach the 1962-66 average. Prices received for 1968 cotton were less than for the 1967 crop, and resulted in a disappointing return.

Farmers who depend more heavily on income from livestock and livestock products than on cash crops are in relatively better financial condition than a year earlier. Beef and hog production was about the same as in 1967, and prices were generally higher in 1968. The slow decline in dairy farm numbers continued. Milk production was about the same as in 1967 and milk prices averaged slightly higher than in 1967.

Many industries in Appalachia are located in rural or near-rural areas. These industries, plus the fact that many of the rural areas are not topographically suited to large-scale farming operations, make off-farm income a more important part of the total farm family income than in many parts of the United States. Practically every reporter stated that off-farm income of farm families was increasing in the region. And often this extra income was reportedly used in upgrading the level of living.

Reporters mentioned that the cost of producing farm products was increasing each year. They also noted that production costs were climbing faster than cash receipts, therefore holding back any real advance in the financial reserves of many farmers. The drive of commercial farmers to expand for efficiency tends to use up accumulated cash reserves. There were also comments that farmers are using more of the equity in their existing farm plant in efforts to expand or to otherwise take advantage of new technology and innovations.

Record amounts of credit went into farming in 1968, both for production purposes and for long-term investments. The established commercial farmer had little difficulty getting all the credit he wanted. In some areas, however, some of the better farmers--North Carolina, for example--found it increasingly difficult to obtain long-term farm mortgage loans, due primarily to loan funds not being available at prevailing farm mortgage interest rates. North Carolina has a 6-percent legal ceiling on long-term loans to individuals. Lenders, most of whom have better profitmaking alternatives for their funds, are not anxious to make long-term loan contracts at a 6-percent rate. West Virginia and Virginia raised the legal interest rate ceiling on loans from 6 percent to 8 percent during 1968. Although some reporters deplored the fact that raising interest rate ceilings had increased interest costs to farmers, others stated that the higher rates of interest had been accepted by most commercial farmers as another higher cost item.

Most correspondents stated that loan delinquencies were low, especially on real estate loans. Instances of foreclosures were practically nonexistent. Some thought that carryovers and "unplanned" renewals of production loans were higher than usual in localities where bad weather cut crop yields.

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total	3,114	3,275	5.2
Crops	1,640	1,719	4.8
Livestock and livestock products	1,474	1,556	5.6
Market value of farm real estate, March 1	11,351	12,025	5.9
Farm real estate debt, Jan. 1	1,555	1,741	12.0
Farm mortgage recordings, Jan.-June	246	238	-3.2
Non-real estate farm loans held by reporting lenders, July 1	704	736	4.6

Outlook for 1969

The comparative financial condition of farmers in the Southeast at the beginning of 1969 varied according to location and type of farm enterprise. Cash crop farmers, especially in South Carolina and Georgia, are in noticeably weaker cash position. Citrus and most vegetable producers in Florida have strengthened their financial condition. Poultry and livestock farmers also are better off, although oversupplies of poultry products and red meats may build up to such size as to reduce prices later in 1969, according to correspondents.

Reporters expect production costs to increase further, limiting the improvement in net farm income.

Demand for farm loans is expected to increase in 1969. Funds are expected to be adequate for loans to farmers who can convince lenders they have the management ability and repayment capacity to properly handle debt. Interest rates will likely remain high and may increase.

1968 Financial Conditions

Late summer drought severely cut production of cotton, soybeans, and peanuts in South Carolina and Georgia. Although cotton production was up 50 percent for the region over the small 1967 crop, the output was far below normal. Prices were much lower than a year earlier. Soybean yields per acre were less than half of 1967 levels in much of the region. Melon production was the lowest in years in many sections.

Tobacco production was reduced from 1967--due primarily to about a 14-percent decrease in harvested acreage. Tobacco prices were slightly higher, but not by enough to overcome the loss in production.

The 1968-69 citrus crop in Florida is expected to be the second largest on record. The price will be less than that received for the small, year-earlier crop. South Carolina and Georgia peach producers received a boost from bumper crops. Prices were lower but returns exceeded those in 1967. Pecan production was average in Alabama but disappointingly small in the rest of the region.

Prices for poultry, eggs, and livestock were generally favorable, and helped strengthen producers' financial condition. Dairy product prices and production held up well during 1968, making the established dairy operator stronger financially than operators of most other types of farms in the region.

Farm production expenditures were higher in 1968 than in 1967. The volume of purchased inputs increased in practically every sector of farming, and most inputs carried higher price tags. The exception was most fertilizer prices, which advanced in most areas only slightly, if at all.

Farm labor unavailability and higher wage rates were mentioned by all reporters as a major problem on most commercial farms. Tobacco, citrus, and truck farming, which are prevalent in the region, are less adaptable than most crops to mechanical handling and require considerable farm labor. Expenditures on such farms for hired labor constitute a sizable portion of production expenses.

Spending for farm family living has followed the upward trend of the nonfarm sector. There was more than usual mention, too, of farm families becoming more reluctant to adjust living costs downward in years of reduced income.

Off-farm income is increasing as a part of the farm family income. Reporters noted that alternative income-producing opportunities were attractive to many small-scale farmers, some of whom were becoming full-time nonagricultural workers. Farms they once operated were being blended--either by purchase or renting--into the larger, commercial-type farm units. This was looked upon by many reporters as a healthy development; it removed some marginal farmers from farming and at the same time provided them with a better income without their having to relocate.

Demand for new farm credit in the region was possibly less strong in 1968 than 1967. However, demand for production-type credit in 1969 is expected to be greater than in 1968. There is evidence of larger unplanned carryovers of production-type debt into 1969. Borrowing for capital purpose items via farm mortgage loans slackened in 1968 but is expected to pick up again in 1969.

Interest rates on all types of farm loans were up during 1968. Loan funds were adequate to supply needs of the efficient commercial farmers in the region in 1968. But many beginning farmers and marginal operators may have difficulty. One reporting lender sized up the situation: ". . . there is no shortage of availability of credit to farmers who have the potential for orderly repayment."

DELTA STATES

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total	2,226	2,381	7.0
Crops	1,201	1,284	6.9
Livestock and livestock products	1,025	1,097	7.0
Market value of farm real estate, March 1	10,014	10,951	9.4
Farm real estate debt, Jan. 1	1,270	1,413	11.3
Farm mortgage recordings, Jan.-June	213	276	29.9
Non-real estate farm loans held by reporting lenders, July 1	709	803	13.1

Outlook for 1969

Commercial farmers in the Delta region entered 1969 in a financial condition generally improved over a year earlier. Gross farm income is expected to be higher in 1969 than in 1968. Production costs will also rise, thereby holding net farm income to only a slight increase, in reporters' opinions. Off-farm income of farm families will continue upward.

Demand for farm credit in 1969 is expected to continue strong in the Delta States. Non-real estate farm credit will reach record amounts to aid in production of farm crops and livestock. Demand for long-term farm mortgage credit is expected to continue in 1969 at about the same intensity as in 1968. Usual developments which underlie most demands for long-term farm loans--farm enlargement, land and building improvements, and consolidation of shorter-term debts--will continue and thereby keep demand for such loans active. However, there may be some slowdown in demand for long-term borrowing because of farmers' resistance to relatively high interest rates and from uncertainty over possible cotton program changes after 1970.

Funds are expected to be adequate for worthwhile farm loans in 1969, but at relatively high interest rates. Any reductions in rates of interest are apt to be local exceptions.

1968 Financial Conditions

Delta farmers did better last year than in 1967. Net farm income was up slightly, although it did not equal that of 1966 for most farmers. Production expenses increased for most items, but not enough to take up all the increase in cash farm receipts.

Historically, cotton has been the most important cash crop for the Delta States. However, in 1967 a rapid rise in soybean acreage and yield, and a severe drop in cotton production caused receipts from soybeans to exceed those from cotton. In 1968 sale receipts from cotton and soybeans were about equal. Soybean production in 1968 was about the same as in 1967, but cotton production was up over 50 percent. Prices of both crops were below those for 1967.

Rice farmers in the Delta region, particularly in Arkansas and Louisiana, increased production 20 percent over 1967. Most of the increase reflected increased acreage allotments for 1968. Yield per acre remained about the same as in 1967. The price received for rice was roughly equal to that of the 1967 crop, thereby resulting in higher cash receipts from rice sales.

Cash receipts in 1968 from livestock and livestock products were up from 1967. Cattle prices during most of the year were higher than in 1967. Hog prices were also up, but not as much as for cattle. Milk prices were steady to higher in most areas and production was about the same as in 1967. Broiler growers received higher prices during 1968, but turkey prices were lower.

Increased production costs for Delta farmers reduced net income from what might have been record amounts. Increases in the cost of most production items--except possibly fertilizers--shaved profits per unit of production to thin margins.

Reports were consistent that farm families were continuing to upgrade their level of living. Larger total amounts, as well as larger proportions, of family income were being spent for family living purposes. Better housing, more household conveniences, better clothing, and better educational opportunities were being achieved.

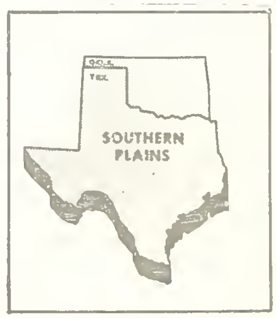
Many reporters indicated that off-farm income by farmers, particularly by other members of their households, was becoming an increasingly important portion of the farm family income.

Demand for farm credit was strong during 1968 throughout the region. Interest rates increased somewhat during the year. Typical production loan rates ranged from 6-3/4 to 7 percent in the spring to 7 - 7-1/2 percent by year-end. Interest rates on long-term farm mortgage loans rose by 0.50 to 0.75 percentage point. There was little indication of lessening demand. Farmers who could demonstrate the ability to use credit to their advantage, and repay loans according to schedule, had no trouble in obtaining loans for production purposes or for long-term farm investments. Several reporters pointed out, however, that marginal farmers would have increasing difficulty obtaining loan funds.

SOUTHERN PLAINS

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total	3,329	3,550	6.6
Crops	1,416	1,511	6.7
Livestock and livestock products	1,913	2,039	6.6
Market value of farm real estate, March 1	22,410	24,088	7.5
Farm real estate debt, Jan. 1	2,232	2,401	7.6
Farm mortgage recordings, Jan.-June	272	305	12.3
Non-real estate farm loans held by reporting lenders, July 1	1,431	1,555	8.6



Outlook for 1969

The outlook for 1969 in the Southern Plains, as reported by the respondents from the area, indicates that gross farm income probably will be lower than for 1968. Livestock income should remain up, but crop receipts will probably decrease. Wheat allotment acreage has been reduced and no diversion payment is included in the cotton program, but the price support for cotton will be higher than for the 1968 crop. Farm costs are expected to increase. Lower net farm income is anticipated.

Demand for credit will continue upward, but prospects for adequate loanable funds in 1969 are good. Land prices will likely increase slightly and tend to level off during the year. A few respondents expressed hope that interest rates might ease some the last quarter of the year, but the general consensus was for interest rates to remain in the 7-8 percent bracket. Farm machinery sales may increase in 1969, because many purchases evidently were postponed in 1968 due to higher interest rates, tight money, and reduced farm income in 1967.

1968 Financial Conditions

Farm production in 1968 was a record in the Southern Plains. Cotton production increased 25 percent over 1968; wheat production was up 46 percent, and barley was 2-1/2 times the 1967 production. Sorghum production was about the same. Fall fed cattle marketings were up 17 percent in Texas and Oklahoma. Cash receipts in 1968 increased 6.6 percent over 1967. Crop receipts increased 6.7 percent and livestock and livestock products 6.6 percent. Lower food and feed grain prices offset some of the effects of increased production. Net farm income was up slightly.

Farm real estate debt outstanding January 1, 1968 was 7.6 percent over a year earlier, and non-real estate debt in the year ended July 1, 1968, increased 8.6 percent. Farm real estate values increased 7.5 percent in the year ended March 1, 1968. Tight money and higher interest rates dampened the demand for capital purchases, but higher land and machinery prices and increased production expenses raised the dollar debt volume of both real estate and non-real estate debt. Loanable funds remained tight most of the year, with some easing late in the year. Interest rates were in the 7 to 8 percent range for most loans.

The financial condition of farmers improved in the Southern Plains, except for some along the Gulf Coast of Texas and the northern portion of the High Plains. Off-farm income of farm families is not as important in the Southern Plains as in some other regions. Reports of any changes in off-farm income were negligible.

In the "Report of Midyear 1968 Agricultural Credit Situation Survey" by the Agricultural Committee of the American Bankers Association, both deposits in agricultural banks and farm loans made by these banks increased proportionately for most areas of the United States in the year ended June 30, 1968, but deposits in the Northern and Southern Plains States during the same period lagged substantially behind loans. The average national growth in deposits was 59 percent; farm loans rose 58 percent. For the Plains States, deposits increased 26 percent but loans increased 67 percent. The report also states that the desire by agricultural banks to increase loan deposit ratios is strongest in the Plains States.

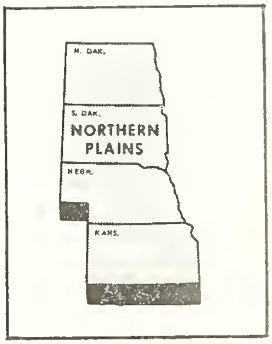
Real estate loan repayments were good in 1968 and delinquencies were practically nonexistent.

One change noted in lending practices in this area was the introduction of a real estate "participation" type loan. In such cases the lender "participated" in the farming operation by receiving a certain percentage of the profits in addition to charging an above-average rate of interest on the loan in exchange for a high debt-land value ratio loan.

NORTHERN PLAINS

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total----------------------------	4,857	4,924	1.4
Crops--------------------------	1,755	1,623	-9.2
Livestock and livestock products-	3,102	3,301	6.4
Market value of farm real estate, March 1--------------------------	19,892	21,317	7.2
Farm real estate debt, Jan. 1------	2,018	2,203	9.2
Farm mortgage recordings, Jan.-June	207	219	5.8
Non-real estate farm loans held by reporting lenders, July 1---------	2,057	2,193	6.9



Outlook for 1969

Above-average moisture conditions and a good start to fall-seeded grains in the Northern Plains, plus some grain price recovery in recent months, augur well for crop farmers. Respondents anticipate steady to slightly higher livestock prices. Production costs will continue to increase and some reporters point to a drop in fed cattle profits even though prices remain high--because cattle are going into feedlots at higher prices. Reporters expect net farm income in 1969 for the Northern Plains to be about the same or slightly higher than in 1968.

Increased farm debt is expected in 1969 since some land and equipment purchases were delayed during recent periods of tight money and high interest rates. Now that more farmers expect some continuation of the relatively high interest rates, purchases will probably increase. Other changes in the area will increase credit demands. The practice of producing "conditioned feeders"--holding calves several weeks longer and feeding ration with supplement--increases credit needs. Increased development of irrigation in the area has also increased credit needs. Most reporters indicated interest rates would remain high for 1969.

1968 Financial Conditions

Farm debt continued to increase in the Northern Plains. Farm real estate debt on January 1, 1968, was up 9.2 percent over the same date in 1967. Non-real estate debt was up 6.9 percent for July 1, 1968, over July 1967. Farm mortgage recordings for January-June 1968 increased 5.8 percent over the like period in 1967.

Cash receipts from farm marketings in 1968 were 1.4 percent higher than in 1967. Receipts from crops decreased 9.2 percent while livestock receipts increased 6.4 percent.

Crop yields were generally favorable in the Northern Plains, but prices were down. Wheat production was up 11 percent and barley up 27 percent in 1968 over 1967; sorghum was down 2 percent. Crop prices in South Dakota were reported to be about 6 percent below and livestock prices 3 percent above 1967. The western third of Kansas reported a very poor wheat crop--40 percent below the year before.

Land values continued to rise, but tended to level off during the last half of 1968. Farm real estate sales were down in number, but prices remained up. Most respondents reported increased machinery purchases.

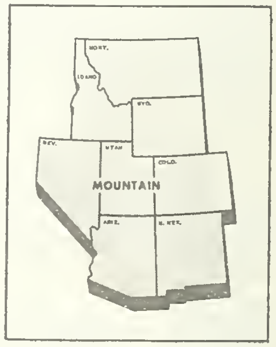
The financial condition of most farmers in the area remained favorable. Collections on farm loans were excellent and delinquencies were at a record low. Exceptions were some small farms and cash grain farms, which were appraised to be in weaker financial condition in 1968 than 1967. Small-scale farmers in the region are having increasing difficulty securing adequate funds.

Farmers in the Northern Plains, except those with less-than-average-size farms, generally have limited opportunity to use off-farm employment to supplement their incomes to the same extent as farmers in most other areas of the United States. However, participation in off-farm employment for farmers with small acreages was reported high.

MOUNTAIN

Regional Highlights

	1967 (Million dollars)	1968 (Million dollars)	Change (Percent)
Cash receipts from farm marketings, total	3,187	3,321	4.2
Crops	1,190	1,207	1.4
Livestock and livestock products	1,997	2,114	5.9
Market value of farm real estate, March 1	15,193	15,806	4.0
Farm real estate debt, Jan. 1	2,282	2,455	7.6
Farm mortgage recordings, Jan.-June	219	243	11.1
Non-real estate farm loans held by reporting lenders, July 1	1,544	1,657	7.3



Outlook for 1969

According to reporters, the demand for short-term credit in 1969 will probably be greater than for 1968, based partly on the trend towards using short-term credit for purposes normally associated with long-term credit. Farmers have shown a reluctance to borrow for long terms at relatively higher interest rates. However, some reporters felt this trend might be reversed in 1969 as farmers accept the higher interest rates.

Most reporters indicated they did not anticipate any change in the repayment record and delinquencies on loans for 1969. Crop production and range feed prospects are reported as being good to excellent going into 1969, thus creating a feeling of optimism in those respects. Interest rates were expected to remain high in 1969.

1968 Financial Conditions

Farm debt continued to increase in 1968. Farm real estate debt outstanding January 1, 1968, was up 7.6 percent and non-real estate farm loans as of July 1, 1968, increased 7.3 percent over the same date in 1967. Farm mortgage recordings increased 11.1 percent in the first half of 1968 over the same period in 1967.

Cash receipts from farm marketings for 1968 were 4.2 percent over 1967. Crop receipts were up 1.4 percent and livestock receipts increased 5.9 percent. Off-farm income was the same or slightly more than 1967. Most respondents felt off-farm income would continue to grow.

Generally, crop production was up but most prices were lower. However, severe hail damage during July was reported in Montana. Potatoes in the Idaho area were hurt by frost and rains. Potato prices were higher than in 1967 for producers who did not contract for their production. Approximately 60 percent of the potatoes in this area are grown on contract.

Wheat, cotton, barley, and sugarbeet production gained in 1968. Although in certain parts of Idaho and Montana, frequent rains in early fall delayed harvest leading to lower test weights and to sprouting damage of grain. Sorghum production declined 14 percent from 1967. Fruit production in 1968 was down over 50 percent from 1967 levels in Idaho, but production in the other Mountain States increased. Lower cash receipts in the Idaho fruit area tended to present some financing problems. Farmers' financial savings and reserves in this area were reportedly down.

The number of land sales was down, but prices held steady to slightly higher than in 1967. Higher land prices increased the number of land sales being seller financed. A shift in land financing from Federal land banks and life insurance companies to other lenders was noted for this area.

Interest rates were generally higher for 1968, with most rates in the 7 to 8 percent range. Loan repayment was good and delinquencies low in 1968.

PACIFIC

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total	5,185	5,579	7.6
Crops	3,155	3,462	9.7
Livestock and livestock products	2,030	2,117	4.3
Market value of farm real estate, March 1	24,169	25,441	5.3
Farm real estate debt, Jan. 1	3,867	4,205	8.7
Farm mortgage recordings, Jan.-June	232	245	5.3
Non-real estate farm loans held by reporting lenders, July 1	1,484	1,582	6.6

Outlook for 1969

The price-cost margin should continue to narrow in 1969, according to correspondents, with net farm income little changed from 1968 levels. Increased cost of production--operating expenses, maintenance, and cost of ownership or control of capital goods--will most likely offset most of the expected increase in gross farm income. For most farmers, reporters believe this will mean further depletion of financial savings and cash reserves. Due to higher production costs and continued inflation of family living expenses, demand for short-term credit will likely continue strong well into 1969.

The cost of capital goods is expected to continue increasing at present rates, with some California farmers seeking alternative methods, other than purchasing, for acquiring control. Capital leasing is rapidly increasing; according to one California correspondent, "This increase has been noted in mechanical harvesting equipment--tomato equipment in particular." With these types of equipment being developed for a wide variety of crops the correspondent felt that, "The significance of leasing will probably increase in the future, at least in areas currently heavily dependent on harvest labor."

Correspondents felt that if the total credit demands of the economy grow more slowly in the first half of 1969, interest rates could soften and funds generally become more available to farmers. Demand for long-term credit is expected to increase slightly over 1968 levels. Short-term lenders will likely continue to pressure borrowers to switch some of their short-term credit to long-term, thereby increasing the demand for long-term loans. Total demand for credit by farmers should, in general, be up modestly with adequate funds available to meet credit needs in 1969.

1968 Financial Conditions

Financial conditions of farmers in the Pacific region generally improved during 1968. Cash receipts from farm marketings were up nearly 8 percent from 1967. Portions of the region were in a weaker financial position due to unfavorable weather conditions.

Cash receipts from the sale of crops--approximately 62 percent of total cash receipts--increased nearly 10 percent during 1968. This increase resulted primarily from the recovery in deciduous fruit output from the poor 1967 crop and more favorable prices for spring vegetables. The bulk of the increase resulted from a substantial increase in crop production in California. Washington and Oregon noted declines in fruit production.

Cash receipts in 1968 from the sale of livestock and livestock products increased 4 percent over 1967 levels. Higher prices for beef cattle and eggs provided most of the increase.

Off-farm earnings of farm families continued to play an important role throughout the region. Correspondents report that off-farm income equaled or exceeded levels reported in 1967. This source of funds maintains and improves the financial position of the region's farmers who otherwise might be in a weak financial position.

Correspondents noted evidence suggesting that farmers are using short-term credit for purposes normally associated with long-term credit, indicating that farmers are hesitant to borrow money for long terms at present interest rates. The amount of production credit extended to farmers by financial institutions, however, suggests that farmers are relying heavily on credit extended by nonfinancial concerns such as merchants, dealers, and processors of agricultural commodities.

Most institutional sources of credit did not feel that the debt position of Pacific region farmers had risen to the point that should cause a great deal of concern. Ability to obtain future loans was found to hinge more on the managerial ability of the farmer and the degree to which he calculates his position when incurring further obligations, rather than on a specific debt-to-asset ratio.

ALASKA

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total---------------------------	4.3	4.8	12.9
Crops--------------------------	1.1	1.8	61.0
Livestock and livestock products-	3.2	3.0	3.9
Farm real estate loans held by reporting lenders, Jan. 1---------	2.7	2.7	0.0
Non-real estate farm loans held by reporting lenders, July 1---------	2.4	2.4	0.0

Outlook for 1969

Net farm income for Alaska in 1969 is expected to remain about equal to the 1968 level, according to respondents. Gross farm income should increase at about the same rate as in the last several years. Increasing input prices will continue to offset most or all of the increase. Reporters indicated adequate funds should be available to satisfy an anticipated lower demand for both short-and long-term credit. Interest rates are expected to remain high.

1968 Financial Conditions

Cash receipts from farm marketings in 1968 were approximately 13 percent higher than 1967. Receipts from livestock and livestock products increased 4 percent from 1967, although dairy production continued to decrease. Crop receipts in 1968 were over 60 percent higher than in 1967 with the difference reportedly coming from higher production and prices.

Correspondents reporting from the area indicated that spending for farm operation, maintenance, and family living were greater in 1968 than in previous years.

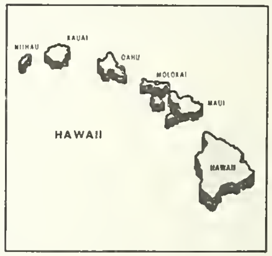
Farmers were in a similar to slightly stronger financial position in 1968 than 1967 with fewer delinquencies and carryovers reported. No change was reported in the amount of non-real estate farm loans held by reporting lenders July 1, 1968, as compared to the same date a year earlier. Approximately $2 million in non-real estate debt is held by commercial banks and federally sponsored agencies. Real estate debt outstanding January 1, 1967, was also unchanged from the same date in 1968.

While interest rates were somewhat higher in 1968 than in 1967, reporters felt that the higher rates did not cause Alaskan farmers to postpone investments in capital goods.

HAWAII

Regional Highlights

	1967	1968	Change
	(Million dollars)		(Percent)
Cash receipts from farm marketings, total	199.0	202.1	1.6
Crops	161.6	166.9	3.3
Livestock and livestock products	37.4	35.2	-5.8
Farm real estate loans held by reporting lenders, Jan. 1	15.5	18.5	19.7
Non-real estate farm loans held by reporting lenders, July 1	13.3	11.7	-11.4



Outlook for 1969

Reporters expect the financial condition of Hawaii's farmers to improve slightly in 1969. They expect a more stable milk market and an increase in production and prices for most commodities.

Hawaii's agriculture is composed of many small, marginal farmers, and a few huge, commercialized farms. Approximately 90 percent of all agricultural production comes from less than 6 percent of the farms, while approximately 80 percent of the farms with harvested cropland are less than 10 acres in size. Small-scale farmers in Hawaii appear to be having difficulty in affording needed credit because of high interest rates--as high as 12 percent, according to some reporters. Correspondents indicate adequate credit for farmers on large-scale farms with

above-average incomes. Reporters expect little change in the credit situation in 1969, although early in the year delinquencies are expected to decline slightly.

1968 Financial Conditions

Reports from Hawaii indicate a slight increase in gross farm income in 1968, but higher costs likely offset the gain. Hawaii's sales of agricultural products were $202 million in 1968 compared to $199 million in 1967. Of 1968 agricultural receipts, crops accounted for 83 percent; livestock and livestock products accounted for the remainder.

Sugar production--the major source of farm receipts in Hawaii--was estimated to be 4 percent higher in 1968 than in 1967. Dry weather and volcanic fume damage contributed to a drop in fruit production in some areas. Prices received for livestock and livestock products appeared to run ahead of 1967 levels.

PUERTO RICO

Outlook for 1969

Reporters expect the financial condition of Puerto Rican farmers to improve in 1969. Sugar and coffee production are expected to increase due to improved weather conditions in late 1968. Livestock producers will find an increasing demand for their products, spurred by industrial development on the island. And, as industrialization continues to expand rapidly, off-farm employment opportunities in the rural areas are expected to improve.

Reporters expect a slight decline in the use of production credit in 1969 due to better income and high interest rates. Prospects for long-term credit are expected to expand as mechanization of agriculture continues.

1968 Financial Conditions

Puerto Rican families depending exclusively on farm income entered 1968 in a weaker financial condition than a year earlier, and the trend continued throughout the year. Lower farm income due to lower crop production and the higher costs of farming contributed to the weaker financial condition.

Increasing industrial wages have resulted in considerable pressure on agricultural wages, with a consequent increase in operating costs for major cash crops. Commercial crops such as sugarcane, coffee, and tobacco--traditionally produced with hand labor--are now requiring mechanization. Mechanization and the introduction of improved production practices require large additional capital investments.

Puerto Rican coffee and sugarcane farmers have been forced to use up much of their financial reserves due to low income caused by a prolonged drought. Puerto Rico's worst sugarcane harvest in 30 years ended with a 21.1 percent drop in production from the previous year.

Consumption patterns have changed noticeably in Puerto Rico as a result of rapid economic development. Demand for high protein foods, such as meat, milk, and eggs, account for the gradual development of the

livestock industry. The value of livestock products increased $8.4 million in 1968 over 1967--milk production increased by over 11 percent.

Purchases of land for farm enlargement have declined, due largely to rising land prices and low farm income for the last several years. Demand for long-term credit has declined, while that for short-term credit has increased rapidly. Farmers Home Administration reported that applications for farm ownership loans declined 18 percent for the fiscal year ended June 30, 1968; the amount of farm ownership loans made by FHA for the same period declined by 22 percent. The level of non-real estate farm loans of reporting lenders outstanding July 1, 1968, was 38 percent higher than on the same date a year earlier. Commercial banks and sugar mills reportedly are attempting to reduce the level of production credit to agriculture.

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